360 ONE Asset Management Limited

Investment Valuation Policy and Procedures

360 ONE Mutual Fund

Version no.	Effective Date	Details	Maker	Checker	Approver
V14	**July 2025**	**Added Asset category for Debt and Money Market Securities Inserted**	Compliance Team	Risk Team	Board of Directors of AMC and Trustee
V13	**January 2025**	**Regulatory update and valuation of Gold and Silver related instruments**	Compliance Team	Risk Team	Board of Directors of AMC and Trustee
V12	**July 2024**	**Annual Review**	Compliance Team	Risk Team	Board of Directors of AMC and Trustee
V11	**July 2023**	**Annual review and change in Branding**	Compliance Team	Risk Team	Board of Directors of AMC and Trustee
V10	June 2022	Regulatory Update	Compliance Team	Risk Team	Board of Directors of AMC and Trustee
V9	March 2021	Regulatory Update	Compliance Team	Risk Team	Board of Directors of AMC and Trustee
V8	March 2021	Regulatory Update	Compliance Team	Risk Team	Board of Directors of AMC and Trustee
V7	July 2020	Regulatory Update	Compliance Team	Risk Team	Board of Directors of AMC and Trustee
V6	February 2020	Regulatory Update	Compliance Team	Risk Team	Board of Directors of AMC and Trustee
V5	September 2019	Regulatory Update	Compliance Team	Risk Team	Board of Directors of AMC and Trustee
V4	June 2019	Regulatory Update	Compliance Team	Risk Team	Board of Directors of AMC and Trustee
V3	April 2018	Regulatory Update	Compliance Team	Risk Team	Board of Directors of AMC and Trustee
V2	November 2013	Regulatory Update	Compliance Team	Risk Team	Board of Directors of AMC and Trustee
V1	October 2013	Regulatory Update	Compliance Team	Risk Team	Board of Directors of AMC and Trustee

Background

The valuation norm, methodology and principles for valuation of investments by Mutual Funds are defined in the Eighth Schedule to the Securities and Exchange Board of India (Mutual Funds) Regulations 1996, along with circulars issued by SEBI from time to time. Schedule Eighth of SEBI MF Regulation and various circulars issued from time to time provided detailed guidelines on valuation of traded securities, non-traded securities, thinly traded securities, etc.

Securities and Exchange Board of India (SEBI) vide Gazette Notification No. LAD-NRO/GN/2012-12/38/4290 dated Feb 21, 2012 amended SEBI (Mutual Funds) Regulations, 1996.

The emphasis of this amendment was on Principles of Fair valuation and the onus was on respective AMCs to formulate their own valuation policies & procedures providing fair treatment to all investors – past, present and future. According to SEBI, Fair Valuation would imply the following:

The valuation of investments shall be based on the principles of fair valuation i.e. valuation shall be reflective of the realizable value of the securities/assets. The valuation shall be done in good faith and in true and fair manner through appropriate valuation policies and procedures.

The amendment also states that in case of any conflict between the principles of fair valuation and guidelines as per Eighth Schedule and circulars issued by SEBI, the Principles of Fair Valuation shall prevail.

1. Principles of Fair Valuation

As per the amended regulation, the overarching principles that shall be followed by the Asset Management Companies for valuation of its investments are:

- The valuation of investments shall be based on the principles of fair valuation i.e. valuation shall be reflective of the realizable value of the securities/assets.
- The valuation shall be done in good faith and in true and fair manner through appropriate valuation policies and procedures.
- The policies and procedures approved by the Board of the asset management company shall identify the methodologies that will be used for valuing each type of securities/assets held by the mutual fund schemes.
- Investment in new type of securities/assets by the mutual fund scheme shall be made only after establishment of the valuation methodologies for such securities with the approval of the Board of the asset management company.
- The assets held by the mutual funds shall be consistently valued according to the policies and procedures.
- The policies and procedures shall describe the process to deal with exceptional events where market quotations are no longer reliable for a particular security.
- The asset management company shall provide for the periodic review of the valuation policies and procedures to ensure the appropriateness and accuracy of the methodologies used and its effective implementation in valuing the securities/assets. In case of any conflict between provisions of the Valuation Policy and subsequent regulatory amendments, the revised provisions as per the regulatory amendment shall prevail.
- The valuation policies and procedures shall be regularly reviewed (at least once in a Financial Year) by an independent auditor to seek to ensure their continued appropriateness.
- The valuation policies and procedures approved by the Board of Asset Management Company should seek to address conflict of interest.
- Disclosure of the valuation policy and procedures approved by the Board of the asset

management company shall be made in Statement of Additional Information (SAI), AMC / MF website and at any other place as may be specified by SEBI.

- The responsibility of true and fairness of valuation and correct NAV shall be of the asset management company, irrespective of disclosure of the approved valuation policies and procedures.

Any deviation from the disclosed valuation policy and procedures may be allowed after documenting rationale for each deviation. Such deviation including details such as information about the security (ISIN, issuer name, rating etc.), price at which the security was valued vis- a-vis the price as per the valuation agencies and the impact of such deviation on scheme NAV (in amount and percentage terms) shall be reported to Board of Trustees and the Board of the Asset Management Company and also be disclosed on the website of AMC.

In case of any conflict between the Principles of Fair Valuation as detailed above and Valuation Guidelines issued by the Board hereunder or elsewhere, the Principles of Fair Valuation detailed above shall prevail.

Valuation Policy Coverage

This Valuation Policy covers the following:

- Valuation methodologies for all types of securities
- Inter-scheme transfers
- Role of the Valuation Committee
- Handling conflict of interest
- Exceptional events
- Record Keeping

2. Valuation methodologies

The methodology that will be followed for valuing different types of securities held by the schemes of 360 ONE Mutual Fund is given in 'Annexure A'.

In case of any new security not covered by the present universe in Annexure A, the valuation methodology for the same will be laid down with the approval of the Board.

Inter-scheme transfers

All the Inter-scheme transfers shall be done as per current policy viz. at prevailing market price on a spot basis.

Annexure A describes the methodology that is followed in arriving at the fair valuation of securities which are intended to be transferred from one scheme to another.

3. Valuation Committee

Valuation committee comprises of the following personnel:

a. Chief Investment Officer (CIO)/ Whole Time Director (WTD)
b. Chief Executive Officer (CEO)/ Whole Time Director (WTD)
c. Risk Officer
d. Head of Operations
e. Compliance Officer- MF
f. Fund Manager

The CEO /Whole time Director can reconstitute or nominate additional members of the valuation committee, provided that the Risk Officer and Compliance Officer will always be members. Further, for approval of valuation committee, Risk Officer and Compliance Officer approvals shall be mandatory.

Scope of the Valuation Committee:

a) Define valuation procedure and methodology for different types of securities
b) Review, approve and recommend the valuation policy/ procedures to the AMC & Trustee Board for their approval and noting
c) Review the accuracy and appropriateness of methods used in arriving at the fair value of securities and recommend changes, if any
d) Review and approve valuation methodologies at least annually or more frequently based on market condition
e) Review the policy and procedures on a periodic basis, at least once annually
f) Review and approve the spread adjustment in the value of asset based on liquidity and issuer risk consideration
g) Act as escalation body for pricing/ valuation issues, addressing areas of potential conflicts of interest
h) Lay down procedures to prevent incorrect valuation
i) Recommend valuation method during exceptional events
j) Recommend valuation methodology for a new type of security
k) Report to the AMC / Trustee Board regarding any deviations or incorrect valuations and disclosures to the investors

4. Handling conflict of Interest

The valuation committee shall be responsible for ongoing review of areas of conflict and should recommend to the AMC Board the procedures to mitigate it.

5. Exceptional Events

Following are the some of the events that can broadly be classified as exceptional events:

a. Major policy announcements by the Central Bank, the Government or the Regulator
b. Natural disasters or public disturbances that force the markets to close unexpectedly.
c. Absence of trading in a specific security or similar securities
d. Significant volatility in the capital markets
e. Severe liquidity issue in the market.
f. Any other events (such as Frauds and whistle blower complaints) where realizable value may be substantially different from benchmark based prices obtained.

The Valuation Committee shall be responsible for monitoring exceptional events and recommending appropriate valuation methods under the circumstances. Further, the Valuation Committee shall seek the guidance of the AMC board in deciding the appropriate methodology for valuation of affected securities. Deviations from the valuation policy and principles, if any, will be communicated to the unit holders' through suitable disclosures on the fund website.

6. Record keeping

This policy document will be updated in SAI, AMC website and other documents as prescribed by the SEBI regulations and guidelines. All the documents which form the basis of valuation including inter-scheme transfers (the approval notes & supporting documents) shall be maintained in electronic form or physical papers. Above records shall be preserved in accordance with the norms prescribed by the SEBI regulations and guidelines.

7. Review

The policy shall be ideally review once in year. In case of any regulatory change between the two review cycles, the policy shall be deemed as amended in accordance with the changes regulations. In other words, in case of conflict between Regulations and this policy, the regulations shall prevail.

Annexure A

Following are the broad valuation methodology for each type of securities.

1. EQUITY AND RELATED SECURITIES

Equity Shares, Convertible Debenture, Convertible Preference Share, Warrants carrying the rights to equity share, equity Derivatives	
Traded (Fully paid/partly paid)	At the last quoted closing price on the Bombay Stock Exchange (BSE)/ National Stock Exchange (NSE) or other stock exchange, where such security is listed. NSE will be the primary stock exchange. If not traded on the primary stock exchange, the closing price on the other stock exchange will be considered.
Non-Traded (Partly paid)	If the partly paid up share is not traded on any stock exchange on the date of valuation, then it should be valued at the price derived after reducing the uncalled amount from the Closing price of underlying fully paid up share. Further Valuation Committee to decide on application of illiquidity discount as deemed appropriate on case to case basis.
Non Traded	**<u>APPLICATION MONEY FOR PRIMARY MARKET ISSUE</u>** i. Application money should be valued at cost up to 60 days from the closure of the issue. If the security is not allotted within 60 days from the closure of the issue, application money is to be valued as per the directives of valuation committee. Rationale of valuing such application money should also be recorded. i. Equity securities allotted and proposed to be listed, but not listed, are to be valued at cost till two months from the date of allotment and after two months, are to be valued as unlisted securities. Method of valuing unlisted equity is stated below. **<u>VALUATION OF NON-TRADED / THINLY TRADED SECURITIES</u>** When a security is not traded on any stock exchange, on the date of valuation, then the previous closing price on NSE / any other Stock Exchange will be used, as long as date of the previous closing price is less than 30 days. If the equity securities are not traded on any stock exchange for a period of thirty days prior to the valuation date, the scrip must be treated as ` non-traded' scrip. Thinly traded equity/ equity related security is defined in SEBI (Mutual Fund) Regulations as follows: *When trading in an equity/equity related security (such as convertible debentures, equity warrants, etc.) in a month is both less than Rs. 5 lacs and the total volume is less than 50,000 shares, it shall be considered as thinly traded security and valued accordingly.* In line with these guidelines issued by SEBI, **non-traded / thinly traded** securities should be valued as follows: Net worth per share is computed as follows: i. Net worth of the company = Paid up share capital + Reserves other than Revaluation reserve - Miscellaneous expenditure, debit balance in Profit and Loss account. ii. Net worth per share = (Net worth of the company / Number of paid up shares).

Computation of capitalized value of earning per share (EPS):

i. Determination of the Industry Price Earning Ratio (P/E) to which the company belongs.

- ❖ Classification of industries provided by AMFI should be adopted.
- ❖ Presently Industry P/E Ratio used is provided by NSE on a monthly basis.

However, the P/E ratio data if not available from BSE/NSE, P/E provided by the Capital Market, Prowess (CMIE), Reuters etc. should be taken.

ii. Compute EPS from the latest audited annual accounts. In case the EPS is negative, EPS value shall be considered as zero

iii. Compute capitalized value of EPS at 75% discount(P/E*0.25) * EPS

Computation of fair value per share to be considered for valuation at 10 % discount for illiquidity.

[(Net worth per share + Capitalized value of EPS) / 2] * 0.90

In case the latest balance sheet i.e. balance sheet prepared within nine months from the close of the accounting year of the company, is not available (unless the accounting year is changed) the shares should be valued as zero.

In case an individual non-traded / thinly traded security as valued aforesaid, accounts for more than 5% of the total asset of the scheme, AMC should appoint an independent valuer. The security shall be valued on the basis of the valuation report of the valuer. To determine if a security accounts for more than 5% of the total assets of the scheme, it should be valued by the procedure above and the proportion which it bears to the total net assets of the scheme to which it belongs would be compared on the date of valuation.

VALUATION OF UNLISTED SECURITIES

SEBI Circular No. MFD/CIR/03/526/2002 dated May 9, 2002 has prescribed the method of valuation for unlisted equity securities. These guidelines are similar to the guidelines issued by SEBI for non-traded / thinly traded securities mentioned above only except the following:

Computation of Net worth per share as lower of (a) and (b):

A) i) Net worth of the company = Paid up share capital + Reserves other than Revaluation reserve - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses.

ii) Net worth per share = (Net worth of the company / Number of paid up shares).

B)i) Net worth of the company = Paid up capital + Consideration on exercise of Option/Warrants received/receivable by the company + free reserves other than Revaluation reserve – Miscellaneous

	expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses. Net worth per share = (Net worth of the company/ {Number of paid-up shares + number of shares that would be obtained on conversion/exercise of outstanding warrants and options}). If the net worth of the company is negative, the share should be marked down to Zero. Computation of fair value per share to be considered for valuation at 15 % discount for illiquidity. [(Net worth per share + Capitalised value of EPS) / 2] * 0.85. In case the latest balance sheet i.e. balance sheet prepared within nine months from the close of the accounting year of the company, is not available (unless the accounting year is changed) the shares should be valued as zero. At the discretion of the AMC and with the approval of the trustees, unlisted equity scrip may be valued at a price lower than the value derived using the aforesaid methodology. **VALUATION OF NON-TRADED WARRANTS** In respect of warrants to subscribe for shares attached to instruments, the warrants can be valued similarly to the valuation of convertible portion of debentures, as reduced by the amount which would be payable on exercise of the warrant. If the amount payable on exercise of the warrants is higher than the value of the share, the value of the warrants should be taken as zero. Value of Warrant = [Value of share computed as stated in the paragraph above - exercise price] **VALUATION OF CONVERTIBLE PREFERENCE SHARES** Non-traded preference shares should be valued in good faith depending upon the type of the preference Share and after considering illiquidity discount if any. **VALUATION OF ILLIQUID SECURITY IN EXCESS OF 15% OF TOTAL ASSETS OF THE SCHEME** As per clause no. 9.3 of SEBI Mater Circular dated June 27, 2024Illiquid security means securities defined as non-traded, thinly traded and unlisted equity shares. As per the SEBI Regulations aggregate value of Illiquid securities should not exceed 15% of the total assets of the scheme and any illiquid securities held above 15% of the total assets shall be assigned zero value **VALUATION OF CONVERTIBLE DEBENTURES** As per Eighth Schedule of SEBI (Mutual Fund) Regulations method of valuation of convertible debentures is prescribed. Non-convertible and convertible components are valued separately. A. The non-convertible component shall be valued on the same basis as would be applicable to a non-convertible debt instrument mentioned at clause 2 above.

	B. The convertible component to be valued as follows: i) Ascertain • The number of shares to be received after conversion. • Whether the shares would be paripassu for dividend on conversion. • The rate of last declared dividend. • Whether the shares are presently traded or non-traded/thinly traded. • Market rate of shares on the date of valuation ii) In case the shares to be received are, on the date of valuation, are thinly traded / non-traded, these shares to be received on conversion are to be valued as thinly traded / non-traded shares as stated at para 1.2 above. iii) In case the shares to be received on conversion are not non-traded or thinly traded on the date of valuation and would be traded pari passu for dividend on conversion: a) Number of shares to be received on conversion, per convertible debenture, multiplied by the present market rate b) Determine the discount for non-tradability of the shares on the date of valuation. (This discount should be determined in advance and to be used uniformly for all the convertible securities. Rate of discount should be documented and approved by the Board of AMC) Value = (a)*market rate [1-(b)] iv) In case the shares to be received on conversion are not non-traded or thinly traded on the date of valuation but would not be traded paripassu for dividend on conversion: a) Number of shares to be received on conversion, per convertible debenture, multiplied by the present market rate. b) Arrive at the market value of the shares on the date of valuation by reducing the amount of last paid dividend. c) Determine the discount for non-tradability of the shares on the date of valuation. (This discount should be determined in advance and to be used uniformly for all the convertible securities. Rate of discount should be documented and approved by the Board of AMC) Value = (a)*{b- [1- (c)]} v) In case of optionally convertible debentures, two values must be determined assuming both, exercising the option and not exercising the option. • If the option rests with the issuer, the lower of the two values shall be taken as the valuation of the optionally convertible portion, and; • If the option rests with the investor, the higher of the two values shall be taken. **VALUATION OF RIGHTS ENTITLEMENTS - AS PER SCHEDULE VIII OF SEBI (MUTUAL FUND) REGULATIONS**

	When Company announces rights to the existing equity shareholders, under its Listing Agreement with Stock Exchange; it has to declare ex-right date for the purpose of trading on the Stock Exchange. Ex-right date is a date from which the underlying shares, which are traded on the Stock Exchange, will not be entitled to the rights. These rights entitlements can also be renounced in favour of a willing buyer. These renunciations are in some cases traded on the Stock Exchange. In such case these should be valued as traded equity related securities as detailed hereinabove. Till the rights are subscribed, the entitlements as per Regulations have to be valued as under: Valuation of non-traded rights entitlement is principally the difference between the right price and ex-right price. SEBI Regulations have explained this with the help of following formula: Vr= n / m x (Pex – Pof) Where Vr = Value of Rights n = Number of rights offered m = Number of original shares held Pex = Ex-right price Pof = Rights offer price The following issues while valuing the rights entitlements have to be addressed: i. In case original shares on which the right entitlement accrues are not traded on the Stock Exchange on an ex-right basis, right entitlement should be valued as zero. ii. When rights are not treated paripassu with the existing shares such as, restrictions with regard to dividend etc., suitable adjustment should be made by way of a discount to the value of rights at the last dividend announced rate. iii. Where right entitlements are not subscribed to but are to be renounced, and where renouncements are being traded, the right entitlements have to be valued at traded renunciation value. iv. Where right entitlements are not traded, and it was decided not to subscribe the rights, the right entitlements have to be valued at zero. v. In case the Rights Offer Price is greater than the ex-rights price, the value of the rights share is to be taken as zero. vi. The rights entitlements subscribed for listed equity shares are not traded and if the fund manager wishes to renounce rights entitlements post the rights entitlement are valued as mentioned in the regulations, shall be further subjected to illiquidity discount as decided by the valuation committee on case to case basis. **VALUATION OF SHARES ON DE-MERGER** On de-merger following possibilities arise which influence valuation these are: i. Both the shares are traded immediately on de-merger: In this case both the shares are valued at respective traded prices. ii. Shares of only one company continued to be traded on de-merger: Valuation price will be worked out by using cum-price (as listed below), before demerger reduced for quoted price of the listed

	resultant company(s). iii. Both the shares are not traded on de-merger: Shares of de-merged companies are to be valued equal to the pre de merger value up to a period of 30 days from the date of de merger. The market price of the shares of the de-merged company one day prior to ex-date can be bifurcated over the de-merged shares. The market value of the shares can be bifurcated in the ratio of cost of shares. Further, if one of the de-merged companies is not listed within a period of 90 days from the demerger date, an illiquidity discount shall be applied. The illiquidity discount shall be recommended by the fund manager and approved by the Valuation committee. The illiquidity shall take into account factors such as listing timelines as well as prevailing market valuations. Illustration for valuation of de-merged share price (using the cum-price) Company AB gets demerged into Company A and Company B (assume a 1:1 ratio for demerger) and Company B is not listed till date. The value of company B is arrived as follows: Market value of Company AB (pre-demerger closing price) Rs 500/- Market value of Company A (post-demerger closing price) Rs 300/- Valuation of Company B as per cum-price method Rs 200/- Less: illiquidity discount (as applicable) **VALUATION OF SUSPENDED SECURITY** In case trading in an equity security is suspended for trading on the stock exchange up to 30 days, then the last traded price would be considered for valuation of that security. If an equity security is suspended for trading on the stock exchange for more than 30 days, then it would be considered as non-traded and valued accordingly In case shares of both the companies are not traded for more than 30 days, these are to be valued as unlisted security.
Thinly Traded	Valuation will be computed in accordance with the method prescribed under SEBI (MF) Regulations. i.e. on the basis of average of book value and the price computed on the basis of the PE ratio (after appropriate discount to Industry PE), further discounted for illiquidity.) Definition of thinly traded equity/ equity related security: When trading in an equity/equity related security in a calendar month is both less than INR 5 lacs and the total volume is less than 50,000 shares, it shall be considered as a thinly traded Security.
Futures	
Traded	On the valuation day, valued at settlement price provided by the recognised stock exchange.
Non Traded	When a security is not traded on the respective stock exchange on the date of valuation, then the settlement price / any other derived

	price provided by the respective stock exchange.
Options	
	The option shall be valued at the value received from the Valuer's approved by the Valuation Committee.

2. SOVEREIGN SECURITIES

All sovereign securities issued as government securities, T-Bills, cash management bills, state development loans etc. will be valued at Average prices released by Valuation Agencies appointed by AMFI. Currently the valuations are provided by CRISIL and ICRA (Herein after referred to as Valuation Agencies").

3. DEBT & MONEY MARKET SECURITIES

Asset Category	**Valuation methodology**
Government Securities	Government Securities includes securities issued by Central government or State Government, Cash Management bills, Treasury bills, State Development Loans, etc. Government Securities (including Treasury Bills) will be valued at the average of the prices provided by AMFI approved agencies
Debt & Money Market securities /Instruments across all maturities	Debt & Money Market securities includes Commercial Paper/ Certificate of Deposit / Bonds / Zero Coupon Bonds / Bills / Floating rate securities / Securitization, Partly Paid Debentures etc.) All money market and debt securities including floating rate securities shall be valued at average of security level prices obtained from valuation agencies appointed by AMFI on each valuation day. Where any security is purchased by any scheme of Mutual Fund and the security level price from the agency(ies) appointed by AMFI is not available on that day, such security shall be valued at weighted average purchase yield on that day. In case necessary details to value debt and money market securities are not available, the valuation committee will determine fair value based on available information.
Instrument rated below investment grade	All money market or debt securities/instruments which are rated below investment grade" if the long-term rating of the security issued by a SEBI registered Credit Rating Agency (CRA) is below BBB- or if the short term rating of the security is below A3 will be valued at the prices/ basis the indicative haricut(s) provided by the valuation agencies (currently CRSIL & ICRA)
Interest Rate Swaps (IRS) / Forward Rate Agreements (FRAs)	All OTCs derivatives viz. IRS/FRA's will be valued at the average prices provided by AMFI approved agencies (currently CRSIL & ICRA)
Reverse Repo / TREPS	Reverse Repo (including Corporate Bond Reverse Repo) / Tri-party Repo i.e. TREPS, including overnight Reverse Repo or TREPS will be valued at the average prices provided by AMFI approved agencies (currently CRSIL & ICRA). In case prices are not available then the same shall be valued at cost plus accrual basis.
Investment in Short Term Deposit with banks	Investments in short-term deposits with banks (pending deployment) shall be valued on cost plus accrual basis.

Definition

Traded - A money market or debt security shall be considered as traded when, on the date of valuation, there are trades (in marketable lots as defined below) in that security on any recognized Stock Exchange or there are trades reported (in marketable lots) on the trade reporting platform of recognized stock exchanges or The Clearing Corporation of India Ltd. (CCIL).

Non traded : A money market or debt security shall be considered as non-traded when, on the date of valuation, there are no trades (in marketable lots) in such security on any recognized Stock Exchange or no trades (in marketable lots) have been reported on any of the aforementioned trade reporting platforms.

Marketable lots: The following volume criteria shall be used for recognition of trades by valuation agencies:

Parameter	**Minimum Volume Criteria for marketable lot**
Primary	INR 25 cr for both Bonds/NCD/CP/ CD and other money market instruments
Secondary	INR 25 cr for CP/ CD, T-Bills and other money market instruments
Secondary	INR 5 cr for Bonds/NCD/ G-secs

3.1. Valuation of Money Market Securities/Debt Securities

i) Independent Valuation agencies (CRISIL, ICRA or any agency appointed by AMFI) will send clean prices of all securities held in the portfolios on a daily basis

ii) Prices provided by both valuation agencies will be averaged to calculate the final price for that security

iii) Prices will be provided for all days including holidays assuming a settlement of T+1.

iv) Prices for holidays will be provided on the previous working day.

v) Prices for securities will be made available regardless of whether an instrument is traded or not.

vi) All money market and debt securities including floating rate securities shall be valued at average of security level prices obtained from valuation agencies.

vii) In case security level prices given by valuation agencies are not available for a new security (which is currently not held by any Mutual Fund), then such security may be valued at purchase yield/price on the date of allotment / purchase.

3.2 The above valuation methodology is applicable for valuation of bills purchased under rediscounting scheme;

3.3 Short-term deposits with banks (pending deployment) shall be valued on cost plus accrual basis.

3.4 Prices for all Over The Counter (OTC) derivatives and market linked debentures shall be obtained from valuation agencies.

3.5 Money market and debt securities which are rated below investment grade

Definition of below investment grade and default:
A money market or debt security shall be classified as “below investment grade” if the long-term rating of the security issued by a SEBI registered Credit Rating Agency (CRA) is below BBB- or if the short-term rating of the security is below A3.

Classification of security as Default:
If the Principal or Interest has not been received on the day such amount was due or such security

has been downgraded by Credit Rating Agency.

a) Securities rated below investment grade shall be valued at the price provided by valuation agencies
b) Till the time valuation is computed by valuation agencies, such securities shall be valued on the basis of indicative haircuts provided by these agencies. The indicative haircuts shall be applied on the date of credit event.
c) Consideration of traded price for valuation:

   • In case of trades during the interim period between date of credit event and receipt of valuation price from valuation agencies, such traded price for valuation shall be considered if it is lower than the price post standard haircut.

   • In case of trades after the valuation price is computed by the valuation agencies as referred above and where the traded price is lower than such computed price, such traded price shall be considered for the purpose of valuation and the valuation price may be revised accordingly.

d) Deviation from the indicative haircuts and/or the valuation price for securities rated below investment grade provided by the valuation agencies shall be subject to the following:
   - The detailed rationale for deviation from the price post haircuts or the price provided by the valuation agencies shall be recorded by the AMC.
   - The rationale for deviation along-with details such as information about the security (ISIN, issuer name, rating etc.), price at which the security was valued vis-a-vis the price post haircuts or the average of the price provided by the valuation agencies (as applicable) and the impact of such deviation on scheme NAV (in amount and percentage terms) shall be reported to the Board of AMC and Trustees.
   - The rationale for deviation along-with details as mentioned above shall also be disclosed to investors. In this regard, all AMCs shall immediately disclose instances of deviations under a separate head on their website. Further, the total number of such instances shall also be disclosed in the monthly and halfyearly portfolio statements for the relevant period along-with an exact link to the website wherein the details of all such instances of deviation are available.

The treatment of accrued interest and future accrual of interest, in case of money market and debt securities classified as below investment grade or default, is detailed below:

- The indicative haircut that has been applied to the principal should be applied to any accrued interest.
- In case of securities classified as below investment grade but not default, interest accrual may continue with the same haircut applied to the principal. In case of securities classified as default, no further interest accrual shall be made.

The following shall be the treatment of how any future recovery should be accounted for in terms of principal or interest:

a. Any recovery shall first be adjusted against the outstanding interest recognized in the NAV and any balance shall be adjusted against the value of principal recognized in the NAV.

b. Any recovery in excess of the carried value (i.e. the value recognized in NAV) should then be applied first towards amount of interest written off and then towards amount of principal written off.

If a security is in default beyond its maturity date, then disclosure to this effect shall be provided. Such disclosure shall include details of the security including ISIN, name of security, value of the security considered under net receivables (i.e. value recognized in NAV in absolute terms and as % to NAV) and total amount (including principal and interest) that is due to the scheme on that investment. Further, this disclosure shall continue till the value of the security recognized in the NAV is received or for a period of 3 years from the date of maturity of security, whichever is later.

Treatment and disposal of illiquid securities or securities classified as default at the time of maturity / closure of schemes

In case of close-ended schemes, some of the investments made by Mutual Funds may become default at the time of maturity of schemes. Further, at the time of winding up of a scheme, some of the investments made by Mutual Funds may become default or illiquid. In due course of time i.e. after the maturity or winding up of the schemes, such investments may be realised by the Mutual Funds. It is advised to distribute such amount, if it is substantial, to the concerned investors. In case the amount is not substantial it may be used for the purpose of investor education. The decision as to the determination of substantial amount shall be taken by the Trustees of Mutual Funds after considering the relevant factors including number of investors, amount recovered, cost of transferring funds to investors; among others.

3.6 Segregate Portfolio Valuation Based on the SEBI circular dated December 28,2018 on creation of segregated portfolio in Mutual fund schemes.

Notwithstanding the decision to segregate the debt and money market instrument, the valuation should consider the credit event and the portfolio shall be valued based on the principles of fair valuation. in terms of relevant provisions of SEBI (Mutual Fund) Regulation,1996 and Circular (s) issued thereunder. The provisions of policy on segregated portfolio shall be complied with.

3.7 Valuation of Securities with Put/Call Options

The option embedded securities would be valued as follows:

i. Securities with call option: The securities with call option shall be valued at the lower of the value as obtained by valuing the security to final maturity and valuing the security to call option. In case there are multiple call options, the lowest value obtained by valuing to the various call dates and valuing to the maturity date is to be taken as the value of the instrument. Once the option is exercised the security would be valued to Call date (being the deemed maturity date) and would follow the valuation principles as applicable for securities with residual maturity <= 30 days (in case the residual maturity is <= 30 days after exercising the call option). In case of securities with residual maturity > 30 days post exercising the Call and prices not provided by valuation agencies, the securities shall be valued on the basis of guidelines provided by the Investment Committee.

ii. Securities with Put option: The securities with put option shall be valued at the higher of the value as obtained by valuing the security to final maturity and valuing the security to put option. In case there are multiple put options, the highest value obtained by valuing to the various put dates and valuing to the maturity date is to be taken as the value of the instrument. Once the option is exercised the security would be valued to Put date (being the deemed maturity date) and would follow the valuation principles as applicable for securities with residual maturity <= 30 days (in case the residual maturity is <= 30 days after exercising the put option). In case of securities with residual maturity > 30 days post exercising the Put and prices not provided by valuation agencies, the securities shall be valued on the basis of guidelines provided by the Investment Committee.

iii. Securities with both Put and Call option on the same day: The securities with both Put and Call option on the same day and having the same put and call option price, shall be deemed to mature on such put / call date and shall be valued accordingly.

In all other cases, the cash flow of each put / call option shall be evaluated and the security shall be valued on the following basis:

- Identify a ‘Put Trigger Date’, a date on which ‘price to put option’ is the highest when compared with price to other put options and maturity price.
- Identify a ‘Call Trigger Date’, a date on which ‘price to call option’ is the lowest when compared with price to other call options and maturity price.
- In case no Put Trigger Date or Call Trigger Date (‘Trigger Date”) is available, then valuation would be done to maturity price.
- In case one Trigger Date is available, then valuation would be done as to the said Trigger Date.
- In case both Trigger Dates are available, then valuation would be done to the earliest date

If a put option is not exercised by a Mutual Fund when exercising such put option would have been in favour of the scheme, in such cases the justification for not exercising the put option shall be provided to the Board of AMC and Trustees.

3. 8 Perpetual Bonds

Pursuant to SEBI Master circular dated June 27, 2024 the deemed residual maturity of all existing as well as new bonds issued under Basel III framework shall be as below:

Time period	Deemed Residual Maturity of Basel III AT-1 bonds (Years)	Deemed Residual Maturity of Basel III Tier 2 Bonds (Years)
Till March 31, 2022	10	10 years or Contractual Maturity whichever is earlier
April 01, 2022 – September 30, 2022	20	Contractual Maturity
October 01, 2022 – March 31, 2023	30	Contractual Maturity
April 01, 2023 onwards	100*	Contractual Maturity

*100 years from the date of issuance of the bond.

Macaulay Duration for bonds issued under Basel III framework shall be calculated based on the deemed residual maturity as mentioned in the above table.

The valuation of AT-1 Bonds by Mutual Funds shall be based on Yield to Call. The Bonds issued under the Basel III framework shall be valued as given in Annexure A.

3.9 Valuation of Partly Paid Debentures:

Partly Paid Debentures (PPD) shall be valued as under in line with the AMFI Best Practices Guidelines Circular No.115 /2024-25 dated July 26, 2024

(a) Price calculation:
Cash flows are plotted using the details provided in the term sheet. The same is then discounted using YTM derived for that particular ISIN. Prices are sent on face value of Rs 100 (when fully paid), and as per actual paid up value as per valuation date. Cash flows are plotted till actual maturity or deemed maturity (explicit put call option on same date and same value). Two types of securities were available:

- Pay-in dates and pay-in values are clearly defined – In such case future pay-ins are plotted as per details available in term sheet. (Mutual Funds cannot buy these PPDs as per the AMFI Best Practices Guidelines circular no. 83 dt. 18-Nov-2019)
- Pay in dates and pay in values are not clearly defined or are linked to occurrence of some event or is optional linked to on demand from issuer/investor for making such pay-ins – In such case,

since pay-in dates/pay-in values can't be estimated, such future pay-ins are factored on actual basis on receipt of information.

(b) Yield Calculation:

Yields for the ISIN are derived on a daily basis using the standard waterfall approach prescribed for corporate bonds. Definitions of similar maturity, similar issuer, outlier security remains same as other normal securities.

4. VALUATION AND DISCLOSURE OF UPFRONT FEES

- Details of any upfront fees shall be shared by the AMC on the trade date to the valuation agencies as part of the trade reporting to enable them to arrive at the fair valuation for that date.
- For the purpose of accounting, such upfront fees should be reduced from the cost of the investment in the scheme that made the investment.
- In case upfront fees are received across multiple schemes, then such upfront fees should be shared on a pro-rata basis across such schemes.

5. WATERFALL MECHANISM FOR VALUATION OF MONEY MARKET AND DEBT SECURITIES TO THE USED BY THE VALUATION AGENCIES:

The waterfall mechanism for valuation of money market and debt securities to be used by valuation agencies as per Clause no. 9.2.3.C of SEBI Master vide circular dated June 27, 2024 and AMFI circular no. 135/ BP/ 83/ 2019-20 dated 18 November 2019 is given in the enclosed Annexure A.

6. POLLING PROCESS BY VALUATION AGENCIES:

The polling process by valuation agencies as per Clause no. 9.2.3.C of SEBI Master vide circular dated June 27, 2024 and AMFI circular no. 135/ BP/ 83/ 2019-20 dated 18 November 2019 is given in the enclosed Annexure B.

7. OTHER TYPES OF SECURITIES

Following methodology shall be adopted for valuation of other types of securities:

a. Units of Mutual Funds will be valued at the last available NAV

b. Exchange Traded Funds shall be valued at closing prices available on the stock exchanges (NSE / BSE)

c. Valuation of Foreign Securities & ADR/GDR:

Exchange to be considered for valuation of foreign securities and ADRs/GDRs is to be approved by the AMC Board. SEBI has not prescribed the method of valuation of foreign securities and ADR/GDR. Process of valuation to be followed by 360 ONE Mutual Fund would be as follows:

a) Receiving last quoted price:

If the security is listed in a time zone ahead of ours than the same day closing price on appropriate stock exchange as provided by Reuters would be used for valuation. If the security is listed in a time zone behind ours then the previous day's closing price provided by Reuters would be considered for valuation. In case the security is not traded on the above-mentioned days, price of previous day should be used provided the price is not more than 30 days old.

b) Converting the price in Indian Rupees (INR):

Since these prices are in foreign currency these are to be converted in Indian Rupees by applying the exchange rate. Reuters also provide closing conversion rate, which can be used for converting the foreign currency prices in INR. This closing price in INR should also be used for valuation of foreign securities and ADR/GDR. In case Reuters has not provided the conversion rate, the closing price of the security should be converted to INR at RBI reference rate.

d. Investment in ReITs, InvITs

Allotted but awaiting listing - At allotment price

Listed / Traded / Non Traded: Units shall be valued at the last quoted closing price at the principal stock exchange. NSE will be the principal stock exchange. In case ReIT / InvIT are not traded on the principal stock exchange on a particular date, the closing price at which it is traded on any other stock exchange will be considered. If the traded price is not available, then valuation shall be as per the direction of Valuation Committee.

Changes in terms of investment:

While making any change to terms of an investment, 360 ONE Mutual Fund shall adhere to the following conditions:

- Any changes to the terms of investment ,including extension in the maturity of a money market or debt security, shall be reported to valuation agencies and SEBI registered Credit Rating Agencies (CRAs) immediately, along-with reasons for such changes.
- Any extension in the maturity of a money market or debt security shall result in the security being treated as "Default", for the purpose of valuation.
- If the maturity date of a money market or debt security is shortened and then subsequently extended, the security shall be treated as "Default" for the purpose of valuation.
- Any put option inserted subsequent to the issuance of the security shall not be considered for the purpose of valuation and original terms of the issue will be considered for valuation.

8. Valuation of physical Gold & Silver ascertained as per SEBI guidelines

1) The gold & silver held by an exchange traded fund schemes shall be valued at the AM fixing price of London Bullion Market Association (LBMA) in US dollars per troy ounce for gold having a fineness of 995.0 & for Silver 999.0 parts per thousand, subject to the following:

(a) adjustment for conversion to metric measures as per standard conversion rates.

(b) adjustment for conversion of US dollars into Indian rupees as per the RBI reference rate declared by the Foreign Exchange Dealers Association of India (FEDAI); and

(c) addition of –

> (i) transportation and other charges that may be normally incurred in bringing such gold & Silver from London to the place where it is actually stored on behalf of the mutual fund; and
>
> (ii) notional customs duty and other applicable taxes and levies that may be normally incurred to bring the gold from London to the place where it is actually stored on behalf of the mutual fund:

Provided that the adjustment under clause (c) above may be made on the basis of a notional premium that is usually charged for delivery of gold & silver to the place where it is stored on behalf of the mutual fund:

Provided further that where the gold & silver held by exchange traded fund schemes has a greater fineness, the relevant LBMA prices of AM fixing shall be taken as the reference price under this sub-paragraph.

(2) If the gold & silver acquired by the exchange traded fund schemes is not in the form of standard bars,

it shall be assayed and converted into standard bars which comply with the good delivery norms of the LBMA and thereafter valued like standard bars

(3) Valuation of investments in Gold Deposit Scheme (GDS) of banks, having gold held by the Fund as underlying, the valuation of such gold would follow the same principles as provided for valuation of physical gold. Interest received on such Gold Deposit Scheme shall be accrued in proportionate manner till the maturity of the deposit.

a. LBMA Gold & Silver Fixing: - Designed to fix a price for settling contracts between the fixing members of the LBMA (London Bullion Market Association) , the Gold & Silver Fixing provides a recognized benchmark for pricing the majority of spot gold products throughout the world's markets. As per SEBI Guidelines Gold & Silver would be valued at AM fixing price.

b. Premium/Discount would be fixed on a daily basis. MCX domestic price would be considered along with the LBMA AM price to arrive at the premium/Discount.

c. Fixing charges is the commission charged by the bullion bank to fix gold & silver prices. The fixing charges for valuation purpose would be as per the LBMA guidelines.

d. LBMA Fixing prices for Gold are quoted for USD/Oz for 999 fineness. For conversion of Troy Ounces to Kilogram the NYMEX conversion factor of 32.1507 Troy ounces per kilogram will be used. The fineness quotient is adjusted for Silver by using the factor 0.995

e. To convert it into Rs./Kg, it has to be multiplied by INR reference rate from RBI

f. Custom duty is calculated as per Tariff value and the Exchange Rate prescribed by the appropriate authorities irrespective of the price of Gold & Silver as per LBMA and the RBI Reference Rate for USD. The method and rates used for calculation as stated in the example may be changed as per amendments prescribed by the appropriate authorities.

g. Stamp Duty is on ad valorem basis on the price including customs. As of now it is 0.1% of price, it will change as when the appropriate authority changes the rate of duty. Stamp duty calculation for different locations where gold / silver is stored would be as per the method and rates specified by the respective authorities. Stamp duty usually varies from state to state. Current storage locations for 360 ONE Asset management Limited include Mumbai (Maharashtra) and Ahmedabad (Gujarat).

Any other taxes that are non-refundable in nature would be accounted in valuation as & when it is applicable.

9. Valuation of Exchange Traded Commodity Derivatives

Valuation will be done at end of day closing/settlement price published on the valuation day on the MCX/NCDEX/NSE/BSE, as the case may be, and value the commodity on the exchange on which it got transacted There might be variants of commodities based on the lot size which may be launched going ahead by different exchanges such as Gold, Gold Mini etc. For such cases, the closing/settlement price on which it gets transacted will be taken.

Below is the list of commodities in which investment team intends to invest and exchanges on which they are listed.

S. No	Commodity	Exchange
1	ZINC	MCX
2	Gold/Gold mini	MCX/NSE/BSE
3	Lead	MCX
4	Silver	MCX/NSE/BS

		E
5	Nickel	MCX
6	Copper	MCX/BSE
7	Palm Oil	MCX
8	Crude Oil	MCX
9	Aluminum	MCX
10	Natural Gas	MCX
11	Soya Oil or Bean	NCDEX
12	Guar seed	BSE
13	Guar gum	BSE
14	Brent Crude	NSE
15	Cotton	BSE
16	Agridex	NCDEX
17	Bullion Index	MCX
18	Base Metals Index	MCX
19	Comdex	MCX

In case necessary details to value ETCDs are not available the same would be valued based on guidance from valuation committee.

10. Other Commodities (physical received from trading in ETCDs other than the Gold & Silver)

On receipt of the physical stocks at the accredited warehouses of the exchanges, at the allocated location, the commodity will be valued daily at the pooled physical price of the respective location published by the respective commodity exchanges.

Physical commodities then upon the receipt of physical commodity at the accredited warehouse of the exchanges, at the allocated location the commodity can be valued daily at the pooled physical price of the respective location published by the respective commodity exchanges. Pooled price of respective commodity is published every day at the MCX website which can be referred for valuation of stocks lying in the warehouse / designated vaults. These published prices will be considered to valuation. If the pooled physical prices are not available on the respective commodity exchanges, then the waterfall approach given below would be adopted: a) Price of the derivative position best reflecting the physical holding (location of warehousing & expiry) which the scheme owns will be considered for valuation. b) Previous day valuation price. If on any day the pooled price is not available due to holiday, then the immediate previous day's prices shall be applied for the purpose of valuation of commodity. In case necessary details to value ETCDs or physical commodities are not available or if the prices as per above do not represent fair price, the Valuation Committee, in order to ensure fair valuation, will determine price, based on the available information.

11. Valuation methodology of Exchange Traded Funds units (Gold/ Silver).

Units listed and traded would be valued at the closing traded price as on the valuation date. Unlisted units and listed-but-not-traded units would be valued at the NAV as on the valuation date.

12. Valuation of Sovereign Gold Bonds.

Sovereign Gold Bonds are listed on National Stock Exchange. Since these bonds are listed and traded on exchange, these bonds will be valued at closing price given by exchange. In case if these bonds are not traded on a particular day then previous day price will be considered.

13. INTER SCHEME TRANSFER POLICY (IST): -

- Interscheme of money market or debt security (irrespective of maturity) will be done at a price which is the average of the prices provided by the valuation agencies within the pre-agreed TAT after communication of interscheme to the valuation agencies.
- If the price is received from only 1 valuation agency within the pre-agreed TAT after communication of interscheme to the valuation agencies, that price will be considered for the interscheme trade.
- If prices are not received from any of the valuation agencies with the agreed TAT , then the interscheme trade will be done at such transfers are done at the prevailing market price for quoted instruments on spot basis and for non-quoted instruments on the last valued price (if there is no negative/ positive news on the date of IST).

Annexure A

Part A: Valuation of Money Market and Debt Securities other than G-Secs

1. Waterfall Mechanism for valuation of money market and debt securities:

The following shall be the broad sequence of the waterfall for valuation of money market and debt securities:

i. Volume Weighted Average Yield (VWAY) of primary re issuances of the same ISIN (whether through book building or fixed price) and secondary trades in the same ISIN
ii. VWAY of primary issuances through book building of same issuer, similar maturity (Refer Note 1 below)
iii. VWAY of secondary trades of same issuer, similar maturity
iv. VWAY of primary issuances through fixed price auction of same issuer, similar maturity
v. VWAY of primary issuances through book building of similar issuer, similar maturity (Refer Note 1 below)
vi. VWAY of secondary trades of similar issuer, similar maturity.
vii. VWAY of primary issuance through fixed price auction of similar issuer, similar maturity
viii. Construction of matrix (polling may also be used for matrix construction)
ix. In case of exceptional circumstances, polling for security level valuation (Refer Note 2 below)

Note 1
Except for primary issuance through book building, polling shall be conducted to identify outlier trades. However, in case of any issuance through book building which is less than INR 100 Cr, polling shall be conducted to identify outlier trades.

Note 2
Some examples of exceptional circumstance would be stale spreads, any event/news in particular sector/issuer, rating changes, high volatility, corporate action or such other event as may be considered by valuation agencies. Here stale spreads are defined as spreads of issuer which were not reviewed/updated through trades/primary/polls in same or similar security/issuers of same/similar maturities in waterfall approach in last 6 months.
Further, the exact details and reasons for the exceptional circumstances which led to polling shall be documented and reported to AMCs. Further, a record of all such instances shall be maintained by AMCs and shall be subject to verification during SEBI inspections.

Note 3
All trades on stock exchanges and trades reported on trade reporting platforms till end of trade reporting time (excluding Inter-scheme transfers) should be considered for valuation on that day.

Note4
It is understood that there are certain exceptional events, occurrence of which during market hours may lead to significant change in the yield of the debt securities. Hence, such exceptional events need to be factored in while calculating the price of the securities. Thus, for the purpose of calculation of VWAY of trades and identification of outliers, on the day of such exceptional events, rather than considering whole day trades, only those trades shall be considered which have occurred post the event (on the same day).

The following events would be considered exceptional events:
i. Monetary / Credit Policy
ii. Union Budget
iii. Government Borrowing/ Auction Days
iv. Material Statements on Sovereign Rating
v. Issuer or Sector Specific events which have a material impact on yields
vi. Central Government Election Days
vii. Quarter end days
In addition to the above, valuation agencies may determine any other event as an exceptional event.
All exceptional events along-with valuation carried out on such dates shall be documented with adequate justification.

2. Definition of tenure buckets for Similar Maturity

When a trade in the same ISIN has not taken place, reference should be taken to trades of either the same issuer or a similar issuer, where the residual tenure matches the tenure of the bond to be priced. However, as it may not be possible to match the exact tenure, it is proposed that tenure buckets are created and trades falling within such similar maturity be used as per table below.

Residual Tenure of Bond to be priced	Criteria for similar maturity
Upto 1 month	Calendar Weekly Bucket
Greater than 1 month to 3 months	Calendar Fortnightly Bucket
Greater than 3 months to 1 year	Calendar Monthly Bucket
Greater than 1 year to 3 years	Calendar Quarterly Bucket
Greater than 3 years	Calendar Half Yearly or Greater Bucket

In addition to the above:

a. In case of market events, or to account for specific market nuances, valuation agencies may be permitted to vary the bucket in which the trade is matched or to split buckets to finer time periods as necessary. Such changes shall be auditable. Some examples of market events / nuances include cases where traded yields for securities with residual tenure of less than 90 days and more than 90 days are markedly different even though both may fall within the same maturity bucket, similarly for less than 30 days and more than 30 days or cases where yields for the last week v/s second last week of certain months such as calendar quarter ends can differ.

b. In the case of illiquid/ semi liquid bonds, it is proposed that traded spreads be permitted to be used for longer maturity buckets (1 year and above). However, the yield should be adjusted to account for steepness of the yield curve across maturities.

c. The changes / deviations mentioned in clauses a and b, above, should be documented, along with the

detailed rationale for the same. Process for making any such deviations shall also be recorded. Such records shall be preserved for verification.

3. Process for determination of similar issuer

Valuation agencies shall determine similar issuers using one or a combination of the following criteria. Similar issuer do not always refer to issuers which trade at same yields, but may carry spreads amongst themselves & move in tandem or they are sensitive to specific market factor/s hence warrant review of spreads when such factors are triggered.

i. Issuers within same sector/industry and/or
ii. Issuers within same rating band and/or
iii. Issuers with same parent/ within same group and/or
iv. Issuers with debt securities having same guarantors and/or
v. Issuers with securities having similar terms like Loan Against Shares (LAS)/ Loan Against Property (LAP)

The above criteria are stated as principles and the final determination on criteria, and whether in combination or isolation shall be determined by the valuation agencies. The criteria used for such determination should be documented along with the detailed rationale for the same in each instance. Such records shall be preserved for verification. Similar issuers which trade at same level or replicate each other's movements are used in waterfall approach for valuations. However, similar issuer may also be used just to trigger the review of spreads for other securities in the similar issuer category basis the trade/news/action in any security/ies within the similar issuer group.

4. Recognition of trades and outlier criteria

i. Volume criteria for recognition of trades (marketable lot)

Paragraph 1.1.1.l(a) of SEBI vide circular no. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019 on Valuation of money market and debt securities, prescribes that the marketable lots shall be defined by AMFI, in consultation with SEBI. In this regard, marketable lot is defined as under.

The following volume criteria shall be used for recognition of trades by valuation agencies:

Parameter	Minimum Volume Criteria for marketable lot
Primary	INR 25 cr for both Bonds/NCD/CP/ CD and other money market instruments
Secondary	INR 25 cr for CP/ CD, T-Bills and other money market instruments
Secondary	INR 5 Cr for Bonds/NCO/ G-secs

Trades not meeting the minimum volume criteria i.e. the marketable lot criteria as stated above shall be ignored.

ii. Outlier criteria

It is critical to identify and disregard trades which are aberrations, do not reflect market levels and may potentially lead to mispricing of a security or group of securities. Hence, the following broad principles would be followed by valuation agencies for determining outlier criteria.

a. Outlier trades shall be classified on the basis of liquidity buckets (Liquid, Semi-liquid, Illiquid). Price discovery for liquid issuers is generally easier than that of illiquid issuers and hence a tighter pricing band as compared to illiquid issuers would be appropriate.
b. The outlier trades shall be determined basis the yield movement of the trade, over and above the yield movement of the matrix. Relative movement ensures that general market movements are accounted for in determining trades that are outliers. Hence, relative movement over and above benchmark movement shall be used to identify outlier trades.
c. Potential outlier trades which are identified through objective criteria defined above will be validated through polling from market participants. Potential outlier trades that are not validated through polling shall be ignored for the purpose of valuation.
d. The following criteria shall be used by valuation agencies in determining Outlier Trades

Liquidity Classification	Bps Criteria (Yield movement over Previous Day yield after accounting for yield movement of matrix)		
	Upto 15 days	**15-30 days**	**Greater than 30 days**
Liquid	30 bps	20 bps	10 bps
Semi-Liquid	45 bps	35 bps	20 bps
Illiquid	70 bps	50 bps	35 bps

The above criteria shall be followed consistently and would be subject to review on a periodic basis by valuation agencies and any change would be carried in consultation with AMFI.

e. In order to ensure uniform process in determination of outlier trades the criteria for liquidity classification shall be as detailed below.

Liquidity classification criteria - liquid, semi-liquid and Illiquid definition

Valuation agencies shall use standard criteria for classifying trades as Liquid, Semi-Liquid and illiquid basis the following two criteria
a. Trading Volume
b. Spread over reference yield
Such criteria shall be reviewed on periodic basis in consultation with AMFI

Trading Volume (Traded days) based criteria:
Number of unique days an issuer trades in the secondary market or issues a new security in the primary market in a calendar quarter

• Liquid ▸ >=50% of trade days
• Semi liquid ▸ >=10% to 50% trade days
• Illiquid ▸ <10 % of trade days

<u>Spread based criteria:</u>

Spread over the matrix shall be computed and based on thresholds defined, issuers shall be classified as liquid, semi liquid and illiquid. For bonds thresholds are defined as upto 15 bps for liquid; >15-75 bps for semi-liquid; > 75 bps for illiquid. (Here, spread is computed as average spread of issuer over

AAA Public Sector Undertakings/Financial Institutions/Banks matrix), For CP/ CD- upto 25 bps for liquid; >25- 50 bps for semiliquid; > 50 bps for illiquid. (Here, spread is computed as average spread of issuer over Al+/AAA CD Bank matrix).

The thresholds shall be periodically reviewed and updated having regard to the market.
The best classification (liquid being the best) from the above two criteria (trading volume and spread based) shall be considered as the final liquidity classification of the issuer. The above classification shall be carried out separately for money market instruments {CP/ CDs) and bonds.

5. Process for construction of spread matrix

Valuation agencies shall follow the below process in terms of calculating spreads and constructing the matrix:

Steps	Detailed Process
Step 1	Segmentation of corporates- The entire corporate sector is first categorised across following four sectors i.e. all the corporates will be catalogued under one of the below mentioned bucket: 1. Public Sector Undertakings/Financial Institutions/Banks; 2. Non-Banking Finance Companies -except Housing Finance Companies; 3. Housing Finance Companies; 4. Other Corporates
Step 2	Representative issuers - For the aforesaid 4 sectors, representative issuers (Benchmark Issuers) shall be chosen by the valuation agencies for only higher rating {I.e. "AAA" or AA+). Benchmark/Representative Issuers will be identified basis high liquidity, availability across tenure in AAA/AA+ category and having lower credit/liquidity premium. Benchmark Issuers can be single or multiple for each sector. It may not be possible to find representative issuers in the lower rated segments, however in case of any change in spread in a particular rating segment, the spreads in lower rated segments should be suitably adjusted to reflect the market conditions. In this respect, in case spreads over benchmark are widening at a better rated segment, then adjustments should be made across lower rated segments, such that compression of spreads is not seen at any step. For instance, if there is widening of spread of AA segment over the AAA benchmark, then there should not be any compression in spreads between AA and A rated segment and so on.
Step 3	**Calculation of benchmark curve and calculation of spread -** 1. Yield curve to be calculated for representative issuers for each sector for maturities ranging from 1 month till 20 years and above. 2. Waterfall approach as defined in Part A (1) above will be used for construction of yield curve of each sector. 3. In the event of no data related to trades/primary issuances in the securities of the representative issuer is available, polling shall be conducted from market participants. 4. Yield curve for Representative Issuers will be created on daily basis for all 4 sectors. All other issuers will be pegged to the respective benchmark issuers depending on the sector, parentage and characteristics. Spread over the benchmark curve for each security is computed using latest available trades/primaries/polls for respective maturity bucket over the Benchmark Issuer. 5. Spreads will be carried forward in case no data points in terms of trades/primaries/polls are available for any issuer and respective benchmark movement will be given
Step 4	1. The principles of VWAY, outlier trades and exceptional events shall be applicable while constructing the benchmark curve on the basis of trades/primary issuances.

	2. In case of rating downgrade/credit event/change in liquidity or any other material event in Representative Issuers, new Representative Issuers will be identified. Also, in case there are two credit ratings, the lower rating to be considered. 3. Residual tenure of the securities of representative issuers shall be used for construction of yield curve.

Part B: Valuation of G-Secs {T- Bill, Cash management bills, G-Sec and SOL)

The following is the waterfall mechanism for valuation of Government securities:

- VWAY of last one hour, subject to outlier validation
- VWAY for the day (including a two quote, not wider than 5 bps on NDSOM), subject to outlier validation
- Two quote, not wider than 5 bps on NDSOM, subject to outlier validation
- Carry forward of spreads over the benchmark
- Polling etc.

Note:

1. VWAY shall be computed from trades which meet the marketable lot criteria stated in Part A of these Guidelines.
2. Outlier criteria: Any trade deviating by more than+/- 5 bps post factoring the movement of benchmark security shall be identified as outlier. Such outlier shall be validated through polling for inclusion in valuations. If the trades are not validated, such trades shall be ignored.

Part C: Valuation of Bonds issued under Basel III framework.

1. Currently a bond is considered traded, if there is at least one trade in market lot in that particular ISIN. If the bond does not get traded there is a defined waterfall mechanism for valuation of that bond as per AMFI Best Practice Guideline circular no. NO.83 / 2019-20 dated November 18, 2019.
2. The said waterfall requires grouping of same issuer with similar maturity and similar issuers with similar maturity. However, in case any ISIN of issuer has not traded, the valuation of AT-1 Bonds is currently done based on adjusting spread directly to the benchmark security.
3. In order to improve existing valuation of these bonds and implement the defined waterfall, following is proposed to be done:
   i. Form two types of ISINs:
      a) Benchmark ISINs (a non-benchmark ISIN can be linked to only one benchmark ISIN. Currently, SBI ISINs happens to be the benchmark ISINs across all maturities for AT-1 Bonds.)
      b) Non-benchmark ISINs (Will be divided into multiple groups based on similar issuer and similar maturity).
      c) The groups will be decided in consultation with valuation agencies. The two main criteria envisaged to be used here would be Tier 1 / Tier 2 ratings of the ISINs / Issuers, and the spread range in which the group of ISINs / Issuer's trade over the benchmark.

   ii. Take a look back period for trade recognition as under:
      a) 15 working days for benchmark ISINs
      b) 30 working days for non-benchmark ISINs
      c) This will be revised to 7 working days for benchmark ISIN and 15 working days for non-benchmark ISINs from October 01, 2021.
4. If the ISIN gets traded, the traded Yield to Call (YTC) will be taken for the purpose of valuation. Further, if 1 ISIN of the issuer trades all other ISINs of issuers will be considered as traded but with necessary adjustment of spread to YTC. If none of the ISIN of the issuer gets traded, the

trade of similar issuer in the group will be taken to valuation however with necessary adjustment of spread to YTC of similar issuer similar maturity. If none of the ISIN in a group gets traded on any particular day, an actual trade in a look back period will be seen. If there is an actual trade in look back period the security will be considered as traded and valued with necessary adjustment of spread to YTC. According to this valuation will be done based on the trade of issuer, trade of similar issuer and as an additional layer a look back period of is requested. It is confirmed that spread over YTC will be taken without any adjustment of modified duration to call.

5. Further, as the valuation is based on trade during the look back period, it is confirmed that a spread will be adjusted to reflect adverse news, change in credit rating, interest rate etc., which has bearing on the yield of ISIN being valued.

6. However, if there is no actual trade of any ISIN of the issuer as well as similar issuer during look back period also then valuation will be done by taking spread over matrix and/or polling in line with the waterfall mechanism prescribed by AMFI.

Points 4, 5 & 6 have been further elaborated in the detailed as under:

Maturity of ISIN 1 of ABC is near to maturity of ISIN 1 of XYZ & Maturity of ISIN 2 of ABC is near to maturity to ISIN 2 of XYZ

Issuers	**ABC**		**XYZ**		**Valuation of ABC ISIN 1**
Trade	**ISIN 1**	**ISIN 2**	**ISIN 1**	**ISIN 2**	
Traded Today	Y	-	-	-	Take price and arrive at YTC
Traded Today	N	Y	-	-	Take price of ISIN 2 of ABC and compute YTC of ISIN 2. Then adjust the YTC spread of ISIN 1 and ISIN 2 and compute value of ISIN 1 of ABC.
Traded Today	N	N	Y	N	From the price of ISIN 1 of XYZ compute YTC. The spread between YTC of ABC ISIN 1 and XYZ ISIN 1 is to be adjusted to derive YTC of ABC ISIN 1. The spread should further be adjusted to reflect adverse news, change in credit rating, interest rate etc., which has bearing on the yield of ISIN being valued and final YTC and price of the security should be computed.
Traded Today	N	N	N	Y	From the price of ISIN 2 of XYZ compute YTC of ISIN 2 of XYZ. Then derive YTC of ISIN 1 of XYZ by adjusting spread of YTC. Then by adjusting difference in spread between ISIN 1 of XYZ and ISIN 1 of ABC trade (which happens to be nearest maturity) arrive at YTC of ISIN 1 of ABC. The spread should be adjusted to reflect adverse news, change in credit rating, interest rate etc., which has bearing on the yield of ISIN being valued.
No trade today. Check for actual trade during look back	Y	-	-	-	Take YTC of traded day and adjust spread to the movement of benchmark ISIN over the period. Also adjust to reflect adverse news, change in credit rating, interest rate etc., which has bearing on the yield of

					ISIN being valued.
No trade today. Check for actual trade during look back	N	Y	-	-	Arrive at YTC of ISIN 2 by adjusting spread to the movement of benchmark ISIN over the period. Derive YTC of ISIN 1 of ABC from ISIN 2 of ABC by adjusting spread over YTM. Also adjustment should be done to reflect adverse news, change in credit rating, interest rate etc., which has bearing on the yield of ISIN being valued.
No trade today. Check for actual trade during look back	N	N	Y	N	Arrive at YTC of ISIN 1 of XYZ by adjusting spread to the movement of benchmark ISIN over the period. Then the spread of YTC of XYZ ISIN 1 and ABC ISIN 1 is to be adjusted to arrive at YTC of ISIN 1 of ABC. Also, adjustment will be done to reflect adverse news, change in credit rating, interest rate etc., which has bearing on the yield of ISIN being valued.
No trade today. Check for actual trade during look back	N	N	N	Y	Take YTC of ISIN 2 of XYZ by adjusting spread to the movement of benchmark ISIN over the period. Adjust the spread of YTC of ISIN 1 of XYZ and ISIN 2 of XYZ to arrive at YTC of ISIN 1 of XYZ. YTC of ISIN I of ABC will be derived by adjusting spread of YTC of ISIN 1 of XYZ to ISIN 1 of ABC (which appears to be a nearest maturity to ABC ISIN 1). Further, YTC will be adjusted to reflect adverse news, change in credit rating, interest rate etc., which has bearing on the yield of ISIN being valued.
Not Traded During look back	N	N	N	N	Valuation will be done considering spread over matrix and/or polling in line with the waterfall mechanism prescribed by AMFI.

Note: The duration to call shall not be considered/adjusted to spread over YTM. Yield to Call and Yield to Maturity shall be disclosed to investors.

7. Besides, AT-1 bonds and Tier 2 bonds being different categories of bonds, the valuation of these bonds will be done separately (i.e.) ISIN of AT-1 bond traded will not mean that ISIN of Tier-2 bonds of the same issuer have also traded. However, if any issuer does not exercise call option for any ISIN, then the valuation and calculation of Macaulay Duration should be done considering maturity of 100 years from the date of issuance for AT-1 Bonds and Contractual Maturity for Tier 2 bonds, for all ISINs of the issuer.

Annexure B

AMFI GUIDELINES ON POLLING PROCESS FOR MONEY MARKET AND DEBT SECURITIES

Polling Guidelines:

1.Valuation agencies shall identify the Mutual Funds who shall participate in the polling process on a particular day, taking into account ~actors such as diversification of poll submitters and portfolio holding of the Mutual Funds. Mutual Funds who are identified by the valuation agencies shall necessarily participate in the polling process. However, in case any Mutual Fund does not participate in the polling process, detailed reason for the same shall be recorded at the time and subsequently made available during SEBI inspections. In this respect, since a Mutual Fund may have investments in similar securities, a security not forming part of investment universe may not be considered as an adequate reason for not participating in the polling process.

2. Polling will be carried out on a daily basis by the valuation agencies, in terms of points 9-11 below.

3. Each valuation agency needs to take polls from at least 5 unique Mutual Funds on a daily basis. Hence, between the two valuation agencies 10 unique Mutual Funds to be polled. They may cover more Mutual Funds, over and above this. For benchmark securities a poll constituting at least 5 responses will be considered as valid. In case of non-benchmark securities a poll constituting at least 3 responses will be considered as valid. The responses received by each valuation agency will be shared with the other agency also.

4. Median of polls shall be taken for usage in valuation process.

5. The valuation agencies will also need to cover as many non- Mutual Fund participants as possible, over and above the Mutual Funds, to improve on the polling output quality.

6. Endeavour would be made to have adequate representation of both holders and non-holders of the same bond/same issuer for non-benchmark securities in the poll process. Where this is not possible, valuation agencies may seek polls from holders of bonds with a similar structure.

7. In the case of issuers with multiple notch rating upgrades / downgrades over short periods of time, valuation agencies shall:
a. Conduct polls with a larger universe of pollers.
b. Increase the frequency of polling

8. Suo moto feedback on valuations should be entertained only through formal mails from persons designated by AMC for said purpose, and the same shall be validated through repolling. Any such feedback shall be duly recorded by the valuation agencies, including the reason for the challenge, results of repolling and subsequent changes in valuation on repolling, if any. Such records shall be preserved by the valuation agencies, for verification.

9. Polling will be done for two sets of securities, Benchmark & Others.

10. Benchmark will be defined for the following categories across tenors.
a) Treasury Bills
b) Central Government Securities

c) State Government Securities
d) AAA PSU / PFI / PSU Banks
e) AAA Private
f) NBFC
g) HFC
h) Any other as required for improving fair valuations.

11. Polling shall be conducted in the following two scenarios:

a) Validation of traded levels if they are outlier trades.
b) Non traded Securities (in exceptional circumstances as defined in the waterfall mechanism for valuation of money market and debt securities).

12. Best efforts should be made by poll submitters to provide fair valuation of a security.

13. The polling process will be revalidated by external audit of the valuation agencies with at least an annual frequency.

14. AM Cs shall have a written policy, approved by the Board of AMC and Trustees, on governance of the polling process. The aforesaid policy shall include measures for mitigation of potential conflicts of interest in the polling process and shall identify senior officials, with requisite knowledge and expertise, who shall be responsible for polling. Further, the policy should outline the following aspects:

a. the process of participating in a polling exercise.
b. identify the roles and responsibilities of persons participating in the polling.
c. include policies and procedures for arriving at the poll submission
d. cover the role of the Board of AMC and Trustees, and the periodic reporting that needs to be submitted to them.
e. All polling should be preferably over email. In case for any reason, the polling is done by way of a telephonic call then such a call should be over recorded lines, followed subsequently by an email.
f. AMCs should have adequate business continuity arrangements for polling, with the necessary infrastructure/ skill to ensure that consistent delivery of poll submissions is made without material interruption due to any failure, human or technical.

15. All polling done will have to be documented and preserved in format approved by the Board of AMC,
for a period of eight years, along-with details of the basis of polling (such as market transactions, market quotes, expert judgement etc.).

16. AMCs shall ensure that participation in the polling process is not mis-used to inappropriately influence the valuation of securities. The officials of the AMC who are responsible for polling in terms of point no. 14 above, shall also be personally liable for any misuse of the polling process.

17. AMCs shall maintain an audit trail for all polls submitted to valuation agencies.